

# Office of the Governor

BISMARCK, NORTH DAKOTA

## **Audit Report**

For the Biennium Ended  
June 30, 2017



Office of the State Auditor  
Division of State Audit

# Report Highlights

**Internal Control:** We evaluated and tested the high-risk area of expenditures, including correcting entries and purchase card transactions.

- We did not note any deficiencies that warrant the attention of those charged with governance.

**Legislative intent:** We evaluated and tested high-risk areas including: procurement, salary requirements, blanket bond coverage, and appropriation laws.

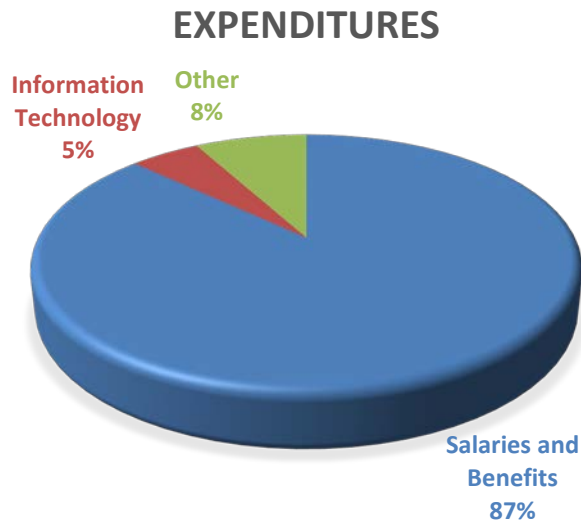
- The Office of the Governor failed to obtain adequate blanket bond coverage.

## Operations:

- This audit did not identify areas of Office of the Governor's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## Financial:

- Salaries and Benefits compose 87% of the total expenditures.



Source: ConnectND amounts.

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

**Senator Jerry Klein – Chairman  
Representative Chet Pollert – Vice Chairman**

**Representatives**

**Bert Anderson  
Patrick Hatlestad  
Mary Johnson  
Keith Kempenich  
Gary Kreidt  
Andrew G. Maragos  
Mike Nathe  
Marvin E. Nelson  
Wayne A. Trottier**

**Senators**

**Dwight Cook  
Judy Lee  
Richard Marcellais**

# *Contents*

---

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>4</i>
<i>Financial Statements</i>	<i>6</i>
<i>Statement of Revenues and Expenditures</i>	<i>6</i>
<i>Statement of Appropriations</i>	<i>7</i>
<i>Internal Control</i>	<i>8</i>
<i>Compliance with Legislative Intent</i>	<i>9</i>
<i>Lack of Blanket Bond Coverage (Finding 17-1)</i>	<i>9</i>
<i>Operations</i>	<i>11</i>



STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

---

February 26, 2018

The Honorable Doug Burgum, Governor  
Members of the North Dakota Legislative Assembly

We are pleased to submit this audit of the Office of the Governor for the biennium ended June 30, 2017. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Kevin Scherbenske, CPA. Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Governor Burgum and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion  
State Auditor

# *Executive Summary*

---

## *Introduction*

The Office of the Governor was established within Article V of the Constitution of North Dakota. The Governor is the chief executive of the state and shall have the responsibility to see that the state's business is well administered and the laws of the state are faithfully executed. The Office of the Governor is also responsible to appoint members of 148 boards, commissions, and councils.

The Honorable Doug Burgum currently holds the Office of the Governor. The Lieutenant Governor is Brent Sanford.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

## *Responses to LAFRC Audit Questions*

### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Office of the Governor in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Other than our findings addressing "lack of blanket bond coverage" (page 9), the Office of the Governor was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

### *3. Was internal control adequate and functioning effectively?*

Yes.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

### *5. Has action been taken on findings and recommendations included in prior audit reports?*

There were no recommendations included in the prior audit report.

### *6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No, a management letter was not issued.

## **LAFRC Audit Communications**

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Office of the Governor's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Office of the Governor.

# ***Audit Objectives, Scope, and Methodology***

---

## ***Audit Objectives***

The objectives of this audit of the Office of the Governor for the biennium ended June 30, 2017, were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Office of the Governor's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Office of the Governor and are they in compliance with these laws?
3. Are there areas of the Office of the Governor's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the Office of the Governor is for the biennium ended June 30, 2017. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the Governor's sole location is its Bismarck office, which was included in the audit scope.

## ***Audit Methodology***

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.



- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Office of the Governor's processes and procedures.

In aggregate, there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

# Financial Statements

---

## Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Revenues:</b>		
Miscellaneous Revenue	\$ 30	\$ 1,051
<b>Total Revenues</b>	<u>\$ 30</u>	<u>\$ 1,051</u>
<b>Expenditures:</b>		
Salaries and Benefits	\$1,847,525	\$1,733,354
Information Technology	93,494	107,703
Furniture and Furnishings	83,124	222
Professional Services	27,500	72,117
Copy Machine Lease/Purchase	19,635	3,408
Building Supplies	15,409	
Travel	12,399	26,857
Printing	13,712	6,601
Supplies	7,329	8,230
Operating Fees and Services	5,029	5,251
Other Expenditures	11,156	4,549
<b>Total Expenditures</b>	<u>\$2,136,312</u>	<u>\$1,968,292</u>

## Statement of Appropriations

For the Biennium Ended June 30, 2017

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 3,735,049	\$ (111,777)	\$ 3,623,272	\$ 3,544,253	\$ 79,019
Operating Expenses	388,910	113,216	502,126	493,623	8,503
Contingency	5,000	5,000	10,000		10,000
Governor's Transition In	15,000		15,000	13,543	1,457
Governor's Transition Out	50,000	(5,000)	45,000	43,824	1,176
Roughrider Awards	10,800	(1,439)	9,361	9,361	0
<b>Totals</b>	<u>\$ 4,204,759</u>	<u>\$ 0</u>	<u>\$ 4,204,759</u>	<u>\$ 4,104,604</u>	<u>\$ 100,155</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 4,204,759	\$ 0	\$ 4,204,759	\$ 4,104,604	\$ 100,155
<b>Totals</b>	<u>\$ 4,204,759</u>	<u>\$ 0</u>	<u>\$ 4,204,759</u>	<u>\$ 4,104,604</u>	<u>\$ 100,155</u>

## ***Internal Control***

---

In our audit for the biennium ended June 30, 2017, we identified the following areas of the Office of the Governor's internal control as being the highest risk:

### ***Internal Controls Subjected to Testing:***

- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: misstatements in financial or performance information, violations of laws and regulations, or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

## ***Compliance with Legislative Intent***

---

In our audit for the biennium ended June 30, 2017, we identified and tested Office of the Governor's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations (2015 North Dakota Session Laws, Senate Bill 2001).
- Compliance with OMB's Purchasing Procedures Manual.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. The finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above.

### ***Lack of Blanket Bond Coverage (Finding 17-1)***

**Condition:**

The Office of the Governor has not had blanket bond coverage since January 1, 2016.

**Criteria:**

Section 26.1-21-10 of the North Dakota Century Code states each agency shall be bonded into the fund no less often than on a biennial basis or when a change in coverage is requested, whichever occurs first.

**Cause:**

The Office of the Governor failed to renew their blanket bond coverage with the North Dakota Insurance Department.

**Effect or Potential Effect:**

The agency is at risk for losing money, should a loss occur.

**Recommendation:**

We recommend the Office of the Governor maintain adequate blanket bond coverage in accordance with North Dakota Century Code section 26.1-21-10.

***Office of the Governor Response:***

The Office of the Governor agrees with the recommendation. The lack of bond coverage since January 1, 2016 occurred with the prior administration under Governor Dalrymple and no notice was received by Governor Burgum's administration. The first notice received by Governor Burgum's office requesting blanket bond coverage was on January 16, 2018. The application for bond coverage was returned to the Insurance Department on January 17, 2018 and is effective January 1, 2018 until it is canceled or terminated by either party.

## *Operations*

---

This audit did not identify areas of Office of the Governor's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

You may obtain audit reports on the internet at:

[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241